GREYCOURT

Capital Market Flash Report

October 2020 Investors reacted to surging COVID-19 cases, renewed lockdowns, election uncertainties, and rich valuations by taking profits and reducing risk. In the near-term, markets are confident any economic slowdown will be met with ample stimulus. Over longer horizons, the net effect of health policy and coordinated stimulus on growth, inflation, and employment will drive asset prices. We expect bouts of heightened volatility as employment and incomes improve, well before economic inflation becomes a serious policy issue.

US EQUITY

Utilities dominated technology stocks as Twitter fell almost 18% on dismal growth while Apple's iPhone sales languished. With spiking volatility, resurging coronavirus infections, and election jitters, investors took gains and repositioned. Value, which has tended to follow COVID-19 tracking data, crushed growth. Only small and mid-cap stocks had positive returns as buyers bet that targeted post-election fiscal stimulus would boost smaller companies with mostly US sales. Investors still preferred more profitable companies to less profitable ones.

	Month (%)	YTD (%)
S&P 500	-2.7	2.8
Russell 1000	-2.4	3.8
Russell 1000 Value	-1.3	-12.7
Russell 1000 Growth	-3.4	20.1
Russell 2000	2.1	-6.8
Russell 2000 Value	3.6	-18.7
Russell 2000 Growth	0.8	4.7

NON-US EQUITY

With the exception of emerging market stocks that posted strong local currency and US dollar returns, non-US stocks fell sharply after surging COVID-19 cases pushed France and Germany to reinstitute lockdowns. Sentiment collapsed and volatility jumped. Tech and energy stocks suffered severe losses as SAP profits faltered and oil prices fell. China was up over 5% as consumer demand, growth, and momentum drove EM Asia higher. EM Europe and Eastern Europe declined by over 10%. Latin America and oil exporting countries also fell.

	Month (%)	YTD (%)
MSCI All-Country World ex-US	-2.1	-7.1
MSCI EAFE	-4.0	-10.4
MSCI Europe	-5.6	-13.6
MSCI Japan	-1.6	-1.9
MSCI Emerging Markets	2.1	1.1
MSCI BRIC Index	3.4	5.7

FIXED INCOME

US rates markets priced in a greater likelihood of a Biden win through higher yields and a steeper curve. The initial focus is on the impact of expanded fiscal stimulus in 2021 that would be offset somewhat by higher taxes in 2022. Higher yields led to negative returns across US Treasuries and Agencies, TIPS, municipals, MBS, and investment grade bonds. US high yield bonds and asset-backed securities benefitted from narrowing spreads. EM sovereign bonds and global inflation-linked bonds rose on positive growth and inflation expectations.

	Month (%)	YTD (%)
U.S. Intermediate Treasuries	-0.4	5.6
U.S. Long Treasuries	-3.0	17.7
U.S. TIPS	-0.6	8.5
Corporate IG Bonds	-0.2	5.4
High-Yield Bonds	0.5	1.1
Tax-Exempt Bonds	-0.3	3.0

CURRENCIES

The Fed's suppression of interest rates, yield curve targeting, and increasing US deficits will exert downward pressure on the US dollar over time. At the end of October, turbulent markets, negative investor sentiment, and a sharp sell off in stocks pushed the US dollar higher to a near-zero return. The euro was buffeted by the lockdowns in France and Germany and growing concerns about the next wave of infections. EM currencies rose as the Chinese renminbi rallied to its highest level against the US dollar in over two years.

	Month (%)	YTD (%)
US Dollar	0.2	-2.4
Euro	-0.6	3.9
Yen	0.8	3.8
Emerging Markets[1]	1.3	-0.6
Canadian Dollar	0.0	-2.5

REAL ASSETS

Oil prices plunged, falling over 10% in the final week of the month, as investors recalibrated market demand expectations after announced shutdowns in Europe. Industrial metals' prices increased as China ramped up purchases of copper to meet increasing demand for electric cars and component inputs to power grids and renewable energy sources such as wind turbines. Gold fell as the US dollar increased. MLPs increased on high double-digit yields while equity REITs fell across all subsectors with office and retail hardest hit.

	Month (%)	YTD (%)
Commodities[2]	1.4	-10.8
Energy	-0.5	-44.3
Industrial Metals	3.0	4.9
Gold	-0.8	20.4
Master Limited Partnerships[3]	4.4	-43.8
Real Estate Investment Trusts[4]	-2.6	-19.3

HEDGE STRATEGIES

Equity hedge funds captured a relatively small portion of the downside in the last week of the month, giving up prior gains to close modestly down. Mangers benefitted from the good returns of crowded trades and net selling of the tech sector. Equity market neutral strategies took advantage of volatility and dispersion to produce a positive return. M&A was active with LVMH's $15.8 billion purchase of Tiffany. Macro hedge managers were unable to capitalize on the strong equity moves in China and Asian stocks and the Chinese renminbi.

	Month (%)	YTD (%)
Equity Hedge	-0.3	-3.3
Equity Market Neutral	0.2	-6.7
Event Driven	-0.1	4.4
Relative Value Arbitrage	0.4	4.6
Macro	-0.1	0.0

Data Source: Bloomberg. MSCI returns are gross USD. Currency returns are Simple Price Appreciation (SPA) USD basis. Fixed Income reported on Bloomberg Barclays Indices. [1]MSCI Emerging Markets Currency Index. [2]Bloomberg Commodity Indices. [3]Alerian MLP Index. [4]FTSE NAREIT Equity REIT Index. Hedge Strategies reported on HFRX Indices SPA with a one-day lag. For complete Index Descriptions, see http://www.greycourt.com/indices.html